

Message Text

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PAGE 01 BUDAPE 00758 01 OF 02 171503Z

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 EURE-00 CIAE-00 DODE-00 PM-03

H-02 INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 NIC-01 SAJ-01 ACDA-05 BIB-01 SAM-01

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-01 /104 W

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P R 171254Z MAR 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC PRIORITY 2844

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

USMISSION GENEVA

AMEMBASSY MOSCOW

AMCONSUL MUNICH

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

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LIMITED OFFICIAL USE SECTION 1 OF 2 BUDAPEST 0758

GENEVA FOR MTN DELEGATION

E.O. 11652: N/A

TAGS: ECON, HU

SUBJ: HSWP - 11TH PARTY CONGRESS - ECONOMIC AND SOCIAL THEMES

REF: BUDAPEST 744

1. SUMMARY: PRELIMINARY INDICATIONS ARE THAT NO SIGNIFICANT CHANGES IN ECONOMIC OR SOCIAL POLICY WILL BE ANNOUNCED AT UPCOMING PARTY CONGRESS. RECENT COMMENTARY ON ECONOMY HAS HEAVILY STRESSED THEME OF CONTINUITY AND
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PAGE 02 BUDAPE 00758 01 OF 02 171503Z

BALANCE MAKING POINT THAT THOSE WHO BELIEVE HUNGARY RETURNING

TO RIGID SYSTEM OF CENTRAL ECONOMIC PLANNING JUST AS MISTAKEN AS THOSE WHO THINK CENTRAL ADMINISTRATIVE REGULATORS HAVE NO PLACE IN HUNGARY'S ECONOMIC SYSTEM. PARTY'S PROGRAM DECLARATION MAKES STRONGEST STATEMENT SUPPORTING NEED FOR MAXIMUM POSSIBLE ENTERPRISE INDEPENDENCE WE HAVE SEEN IN SEVERAL MONTHS. WHILE HUNGARIAN ECONOMY UNDER INCREASING PRESSURE DUE TO LARGE FOREIGN TRADE DEFICIT AND CEMA PRICE ADJUSTMENTS AND POLICY ADJUSTMENTS WILL NO DOUBT BE CALLED FOR TO DEAL WITH THIS SITUATION, IT IS OUR BELIEF THAT HUNGARIAN LEADERSHIP WILL NOT USE POLITICAL FORUM OF PARTY CONGRESS TO INTRODUCE MAJOR CHANGES IN ECONOMIC AREA. ADJUSTMENTS IN ECONOMIC POLICY ARE MORE LIKELY TO BE BROUGHT IN GRADUALLY IN THE MONTHS FOLLOWING THE CONGRESS. END SUMMARY.

2. ALTHOUGH HUNGARIAN ECONOMY IS FACED WITH MOST SERIOUS ECONOMIC CHALLENGES IN MANY YEARS AS A RESULT OF DETERIORATION IN TERMS OF TRADE WITH WEST, INFLATIONARY PRESSURES AND CEMA'S RECENT PRICE ADJUSTMENTS, PRELIMINARY INDICATIONS ARE THAT NO SIGNIFICANT CHANGES IN POLICY WILL BE ANNOUNCED AT PARTY CONGRESS. IN RECENT NEPSZABADSAG ARTICLE GIVING PREVIEW OF APPROACH PARTY'S CONGRESS WILL TAKE ON ECONOMIC MATTERS, AUTHORITATIVE DEPUTY EDITOR ISTVAN FOLDES PLACED EXCEPTIONALLY HEAVY EMPHASIS ON BALANCE AND CONTINUITY OF ECONOMIC POLICY. CHARACTERIZING POLICY OF NEM SINCE 1968 AS ONE OF USING COMBINATION OF CENTRAL PLANNING, AND DIRECT AND INDIRECT ECONOMIC REGULATORS TO DEAL FLEXIBLY WITH CONTINUALLY CHANGING ECONOMIC CONDITIONS, FOLDES NOTED THAT IT IS NOT NECESSARY TO INTRODUCE BASIC CHANGES OF A THEORETICAL CHARACTER INTO THE SYSTEM. WHILE CURRENT CHALLENGES CALL FOR HEAVIER EMPHASIS ON DIRECT RATHER THAN INDIRECT REGULATORS AS WELL AS EFFECTIVE, COORDINATED PLANNING, AND CENTRAL RANKING OF ECONOMIC PRIORITIES, FOLDES ADDED POINTEDLY THAT THOSE WHO BELIEVE HUNGARY IS RETURNING TO RIGID SYSTEM OF CENTRAL PLANNING ARE JUST AS MISTAKEN AS THOSE WHO THINK THAT CENTRAL ADMINISTRATIVE REGULATORS HAVE NO PLACE IN HUNGARY'S ECONOMIC SYSTEM. STATEMENT IN PREAMBLE TO PARTY GUIDELINES REINFORCES VIEW THAT NEM WILL NOT BE ABANDONED BUT SUBJECTED TO MODIFICATIONS IN VARIOUS RESPECTS.

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PAGE 03 BUDAPE 00758 01 OF 02 171503Z

3. SECTION OF PARTY'S PROGRAM DECLARATION PUBLISHED LAST WEEKEND DEALING WITH ECONOMIC MATTERS BLAND AND DISTINCTLY MIDDLE OF ROAD. SEEMS DESIGNATED PRIMARILY TO REASSURE NERVOUS NO MAJOR CHANGES FORTHCOMING DURING CONGRESS. OFT-REPEATED CALLS FOR MORE EFFECTIVE PLANNING, INCREASED ECONOMIC COOPERATION BETWEEN SOCIALIST COUNTRIES AND NEED TO EXPAND FACTORY DEMOCRACY ARE MADE ONCE AGAIN. HOWEVER,

COMMENT ON NEED TO EXPAND ROLE OF CENTRAL AUTHORITIES
AND MINISTRIES IN ECONOMIC DECISION-MAKING, OR NECESSITY
FOR PARTY TO BE MORE ACTIVE IN ECONOMY, IS CONSPICUOUSLY
BRIEF IN COMPARISON TO EXTENDED REMARKS MADE ON THIS
THEME AT LAST DECEMBER'S PARLIAMENTARY SESSION. ON OTHER
HAND, PROGRAM DOCUMENT MAKES CLEAR PLUG FOR MAXIMUM POSSIBLE
ENTERPRISE INDEPENDENCE NOTING "THAT INITIATIVE, RESPONSI-
BILITY AND INDEPENDENCE OF MANAGEMENT OF STATE ENTERPRISES
OF COOPERATIVES MUST BE INCREASED IN ACCORDANCE WITH INTERESTS
OF COUNTRY."

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PAGE 01 BUDAPE 00758 02 OF 02 171419Z

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5. PROGRAM DECLARATION ALSO REASSURES PRIVATE CRAFTSMEN
AND RETAIL DEALERS THAT THEIR EFFORTS WILL BE NEEDED IN

FUTURE, PARTICULARLY IN AREA OF SERVICES. ON ISSUE OF PROPERTY, DOCUMENT MAKES ANNOUNCEMENT THAT, IN FUTURE, STATE SALES OF PROPERTY TO PRIVATE INDIVIDUALS WILL BE PHASED OUT AND STATE PROPERTY WILL BE AVAILABLE FOR PRIVATE USAGE ONLY ON A LEASING BASIS. DEBATE REGARDING MERITS OF COLLECTIVE PROPERTY, AN OLD CHESTNUT WHICH SURFACED AGAIN LAST FALL FOR FIRST TIME IN MANY YEARS IS STUDIOUSLY AVOIDED, ALTHOUGH PROGRAM DECLARATION DOES MENTION THAT A SINGLE MORE ADVANCED FORM OF COMMUNIST PROPERTY WILL DEVELOP SOMETIME IN THE VAGUE DISTANT FUTURE "ENRICHED BY BOTH FORMS OF SOCIALIST LIMITED OFFICIAL USE

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PAGE 02 BUDAPE 00758 02 OF 02 171419Z

PROPERTY." RE PERSONAL PROPERTY EMPHASIS LIKELY TO BE ON POINT THAT SOCIALIST SOCIETY RECOGNIZES ONLY PERSONAL PROPERTY EARNED THROUGH WORK AND THAT ACQUISITION SHOULD BE CONSONANT WITH FAMILY NEEDS AND NOT A DEVICE TO CREATE A LUXURIOUS WAY OF LIFE INCONSISTENT WITH SOCIAL JUSTICE.

6 ON SENSITIVE QUESTION OF WAGES PRE-PARTY DOCUMENTS AGAIN TAKE A CAUTIOUS APPROACH. WHILE NEED TO LIMIT DIFFERENTIATION IN WAGE SCALES BETWEEN WORKERS PERFORMING SAME TASK WITH SAME QUALITY OF PERFORMANCE IN DIFFERENT ENTERPRISES HAS BEEN STRESSED AND CONCRETE MEASURES ENACTED DURING PAST FEW MONTHS, THERE IS NO INDICATION THAT FURTHER WAGE LEVELING MEASURES WILL BE ANNOUNCED. NO DETAILS PROVIDED IN PARTY GUIDELINES RE WHICH SYSTEM PREFERRED, I.E., WAGE FUND OR WAGE LEVELS. EMPHASIS IS ON "PRUDENT" POLICY IN ORDER TO LESSEN "CREATION OF DISCREPANCIES AND TENSIONS."

7. IF, AS IT APPEARS LIKELY, PARTY CONGRESS AVOIDS TAKING ANY MAJOR ECONOMIC POLICY DECISIONS AT PARTY CONGRESS THIS MAY BE DUE TO FACT THAT PARTY LEADERSHIP IS RELUCTANT TO HAVE MAJOR ECONOMIC POLICY DECISIONS TAKE ON A POLITICAL COLORATION BY USING PARTY CONGRESS AS A FORUM TO INTRODUCE THEM. THERE IS LITTLE DOUBT THAT HUNGARY IS ON THE THRESHOLD OF A TRYING PERIOD ECONOMICALLY AND MAJOR CHANGES, SUCH AS RAPID ACCELERATION OF PHASING OUT OF INEFFICIENT INDUSTRIES, ARE NEEDED. IF SUCH CHANGES ARE TO BE ANNOUNCED, HOWEVER, IT IS OUR BELIEF THAT, FOR SAKE OF STABILITY AND FOR OTHER REASONS, THEY WILL BE INTRODUCED GRADUALLY IN MONTHS FOLLOWING CONGRESS.

8. FINALLY, WHILE HUNGARIAN LEADERS IN THEIR PUBLIC STATEMENTS TAKE PRIDE IN FACT THAT LIVING STANDARD HAS RISEN STEADILY AS PRODUCTIVITY HAS INCREASED, DESPITE INFLATIONARY PRESSURES AND SOARING FUEL AND RAW MATERIAL PRICES, THERE IS A NOTE OF APPREHENSION ABOUT YEARS AHEAD. PRESENT EVIDENCE SEEMS TO INDICATE REGIME IS BRACING ITSELF AGAINST LIKELIHOOD OF HARDER TIMES TO COME IN ECONOMIC

FIELD.

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